

## Message Text

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ACTION SS-15

INFO OCT-01 SSO-00 RSR-01 RSC-01 ADP-00 /018 W

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R 200425Z JUL 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 5516

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FOR S/S

E.O . 11652: N/A

TAGS: GEN, OCON, JA

SUBJ: ECONCOM IX - COUNTERPART MEETING EPA-CEA

1. FOLLOWING IS UNCLEARED MEMCON ON COUNTERPART SESSION  
BETWEEN DR. SEEVERS AND MINISTER KOSAKA. REQUEST S/S  
PASS DR. SEEVERS FOR CLEARANCE AND ADVISE WHEN CLEARANCE  
OBTAINED AND MODIFICATIONS, IF ANY, REQUIRED.

2. QUOTE SUBJECT: EPA-CEA COUNTERPART DISCUSSIONS

PARTICIPANTS:

MR. KOSAKA, EPA MINISTER  
MR. SAKAMOTO, EPA STAFF MEMBER  
MR. MIYAZAKI, EPA STAFF MEMBER  
MR. NITTA, EPA STAFF MEMBER  
MR. AOKI, EPA STAFF MEMBER  
MR. SAKURA, EPA STAFF MEMBER  
GARY L. SEEVERS, MEMBER, CEA  
SIDNEY L. WEINTRAUB, DEPUTY ASSISTANT SECRETARY OF STATE  
WILLIAM PIEZ, EA/J  
WILLIAM CLARK, AMERICAN EMBASSY TOKYO  
JOHN SHOWE, STR  
TIMOTHY MCLAUGHLIN, AMERICAN EMBASSY TOKYO

DATE & PLACE: JULY 17, 1973; TOKYO PRINCE HOTEL

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THE PARTICIPANTS MET FOR A 2 1/2 HOUR DISCUSSION AND LUNCH AS PART OF THE SERIES OF COUNTERPART DISCUSSIONS HELD IN CONNECTION WITH ECONCOM IX. THE DISCUSSIONS COVERED A WIDE RANGE OF DOMESTIC AND INTERNATIONAL ECONOMIC ISSUES AFFECTING BOTH JAPAN AND THE US. THIS MEMORANDUM COVERS THE HIGHLIGHTS OF THOSE DISCUSSIONS.

MINISTER KOSAKA BEGAN BY STATING THAT INFLATION WAS PERHAPS THE MOST SERIOUS PROBLEM FACING JAPAN, THE US, AND THE REST OF THE WORLD AT THE PRESENT TIME. HE EXPRESSED THE HOPE THAT THE US AND JAPAN COULD ACHIEVE GREATER COOPERATION AND COORDINATE POLICIES TO COUNTER INFLATION. KOSAKA STATED THAT UNCERTAINTY CONCERNING THE US DOLLAR AND FUTURE US POLICIES WERE A MAJOR FACTOR FUELING CURRENT INFLATIONARY TRENDS. IN THIS RESPECT HE NOTED THAT DEVALUATION OF THE US DOLLAR HAD CONTRIBUTED TO THE RISE OF COMMODITY PRICES. DR. SEEVERS STATED THAT WHILE DOLLAR DEVALUATION MAY HAVE BEEN ONE FACTOR, STRONGLY INCREASING COMMODITY DEMANDS BY INDUSTRIALIZED COUNTRIES WERE THE MAJOR SOURCE OF COMMODITY PRICE INCREASES.

MR. KOSAKA RETURNED TO THE THEME THAT WEAKNESS OF THE US DOLLAR AND UNCERTAINTY OVER FUTURE US POLICIES CONSTITUTE THE ROOT OF CURRENT INTERNATIONAL MONETARY INSTABILITY. MR. WEINTRAUB RESPONDED THAT THIS WAS THE REASON THE US WISHED TO CONCLUDE A NEW MONETARY AGREEMENT. WHILE THE CURRENT FLOATING SYSTEM IS WORKING WELL AT PRESENT, IT MAY NOT PROVE DURABLE AND THE US AND JAPAN BOTH DESIRE A SYSTEM WHICH PROVIDES MORE GUARANTEED DURABILITY. HE THEN OUTLINED US PROPOSALS ON MONETARY REFORM, GENERALLY ALONG THE LINES OF THE RECENT US STATEMENT AT C-20. HE EMPHASIZED THAT WHATEVER SYSTEM IS DEVELOPED MUST PROVIDE A LARGE DEGREE OF DISCIPLINE.

MR. NITTA STATED THAT TWO FACTORS REQUIRED CONSIDERATION. FIRST, GIVEN THE WEIGHT OF US-JAPAN ECONOMIC INFLUENCE IN THE WORLD, THESE TWO COUNTRIES MUST SEEK TO SOLVE INFLATION IN A COOPERATIVE FASHION. THE SECOND LIMITED OFFICIAL USE

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POINT IS THAT TO A DEGREE WORLD INFLATION IS THE RESULT OF UNCERTAINTY OVER THE FUTURE OF THE US DOLLAR, THEREFORE THE STEPS THE US PLANS TO CONTROL ITS OWN INFLATION ARE OF GREAT INTEREST TO OTHER COUNTRIES. DR. SEEVERS RESPONDED THAT THE US RECOGNIZES THE IMPLICATIONS OF US POLICY FOR OTHER COUNTRIES. HE THEN DISCUSSED THE REASONS FOR PHASE III AND FOR THE INTRODUCTION OF THE CURRENT FREEZE. HE EMPHASIZED THAT THE FREEZE ACTION WAS

TAKEN, IN PART, BECAUSE OF THE POLITICAL CLIMATE IN THE US WHICH WAS DEMANDING SOME FORM OF CONTROL. HE OUTLINED THE UTILITY OF CONTROLS BUT EMPHASIZED THE BASIC US POSITION THAT CONTROLS SHOULD BE INTERIM IN NATURE AND EVERY EFFORT SHOULD BE DEVOTED TO A RETURN TO A FREE TRADING SYSTEM. HE PROVIDED A GENERAL OUTLINE OF CURRENT THINKING ON POSSIBLE PHASE IV CONTROLS, BUT DECLINED SPECIFIC COMMENT SINCE CONTROLS HAD NOT BEEN FORMALLY ANNOUNCED.

MR. MIYAZAKI NOTED THE LOW INFLATION RATE IN THE US IN 1972, BUT STATED THAT THIS HAD NOW CHANGED AND THE US ECONOMY WAS RUNNING AT 8.5 PERCENT GROWTH RATE. HE NOTED RECENT COMMENTS BY CEA CHAIRMAN STEIN THAT THE US ECONOMY WOULD SLOW AND ASKED DR. SEEVERS' OPINION ON THIS POINT. DR. SEEVERS RESPONDED BY NOTING THAT, WHILE INDUSTRIAL PRODUCTION WAS STILL AT A HIGH LEVEL AND EXPANDING, THE ANNUAL RATE OF 8.5 PERCENT IN THE FIRST QUARTER APPEARED TO BE TAPERING OFF AND WE EXPECTED A CONSIDERABLY LOWER GROWTH RATE BY THE END OF THE YEAR. HE SAID THIS WAS A GOOD SIGN AS THE US WISHED TO REDUCE ECONOMIC GROWTH TO A SUSTAINABLE LEVEL. HE THEN BRIEFLY REVIEWED THE ECONOMIC INDICATORS WHICH LED HIM TO THIS CONCLUSION. THE GROUP THEN DISCUSSED RELATIVE INVENTORY LEVELS AND REASONS FOR THE CURRENT TRENDS IN BOTH JAPAN AND THE UNITED STATES.

IN DISCUSSING THE JAPANESE ECONOMY, EPA OFFICIALS ANTICIPATED A SLOWING DOWN IN THE LAST HALF OF THE PRESENT JAPANESE FISCAL YEAR. THEY DESCRIBED THE MEASURES ALREADY TAKEN TO REDUCE ECONOMIC EXPANSION. THEY ALSO EXPLAINED JAPANESE LEGISLATION DESIGNED TO PREVENT SPECULATION. THEY NOTED THAT THE LAW HAS NO REAL LIMITED OFFICIAL USE

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SANCTIONS EXCEPT MORAL SUASION, WHICH THE JAPANESE EXPECT TO WORK IN THEIR "SHAME" CULTURE.

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ACTION SS-15

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TO SECSTATE WASHDC 5517

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THE US SIDE GAVE AN EXPLANATION OF THE WAYS IN WHICH PRICES ARE CONTROLLED IN THE US UNDER THE ECONOMIC STABILIZATION ACT.

THE JAPANESE ASKED, AS THEY HAD IN PLENARY, WHETHER THE US EXPECTED LABOR UNIONS TO CONFORM TO WAGE INCREASE GUIDELINES. DR. SEEVERS EXPRESSED OPTIMISM THAT WAGE GUIDELINES COULD BE HELD, PROVIDED INFLATIONARY MOVEMENTS

PARTICULARLY IN THE FOOD SECTOR, COULD BE HELD TO A REASONABLE LEVEL. HE NOTED IN THIS RESPECT THAT MAJOR LABOR CONTRACTS SCHEDULED FOR 1973 HAVE MOSTLY BEEN COMPLETED. THE JAPANESE SIDE SAID THAT WAGE INCREASES IN JAPAN IN 1973 AVERAGED 20.1 PERCENT FOR THE BASIC WAGE. THEY ALSO SAID THE GOJ ANTICIPATED A HEAVY UNION DEMAND FOR LARGE INCREASES IN ANNUAL BONUS DURING LABOR-MANAGEMENT CONFRONTATIONS SCHEDULED FOR THIS FALL.

DR. SEEVERS STATED HE HAD SEEN JAPANESE NEWSPAPER REPORTS OF THE MITSUBISHI BANK FORECAST WHICH PREDICTED A WORLD DEPRESSION IN 1974. HE ASKED THE EPA VIEW OF THIS REPORT. MR. MIYAZAKI STATED THAT THE US ECONOMIC PERFORMANCE WOULD BE THE DETERMINING FACTOR. HE

NOTED ESTIMATES IN SOME QUARTERS THAT THE US GROWTH RATE COULD FALL TO AS LOW AS 2 PERCENT IN 1974. IF THIS OCCURRED IN CONJUNCTION WITH A SLOWDOWN IN EUROPE, THEN THE WORLD WOULD PROBABLY FACE A MINI RECESSION. DR. SEEVERS STATED THAT THE 2 PERCENT FIGURE FOR US GROWTH SEEMED OVERLY PESSIMISTIC, BUT NOTED THAT IT LIMITED OFFICIAL USE

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APPEARED NOW THAT MANY ECONOMIES IN THE DEVELOPED WORLD WOULD HAVE A LOWER GROWTH RATE IN 1974. HE STATED THAT PROBLEMS COULD DEVELOP SHOULD ALL LEADING COUNTRIES FOLLOW THE SAME CYCLE.

THE JAPANESE SIDE ASKED THE CURRENT US ESTIMATES ON THE GLOBAL TRADE BALANCE OF THE US IN THE MONTHS AHEAD.

DR. SEEVERS RESPONDED THAT CURRENT INDICATORS SEEM TO POINT TO THE US ACHIEVING A SURPLUS IN ITS TRADE ACCOUNT IN THE NOT TOO DISTANT FUTURE. HE DECLINED TO PLACE THIS IN A SPECIFIC TIME FRAME, BUT DID INDICATE THAT A BALANCED VIEW MIGHT SEE IT OCCURRING BY EARLY 1974.

THE MEETING CLOSED WITH MUTUAL EXPRESSIONS OF APPRECIATION FOR A USEFUL AND ENJOYABLE SESSION. BOTH SIDES AGREED THAT FURTHER DISCUSSIONS OF THIS NATURE AND A GREATER EXCHANGE OF ECONOMIC INFORMATION WERE EXTREMELY VALUABLE TO BOTH PARTIES. DR. SEEVERS DISCUSSED BRIEFLY WITH MR. MIYAZAKI THE TIMING OF THE NEXT CEA-EPA MEETING SCHEDULED FOR WASHINGTON AND AGREED TENTATIVELY TO CONSIDER THE THIRD WEEK IN OCTOBER. INGERSOLL

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